

## Message Text

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ORIGIN EB-03

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FM SECSTATE WASHDC

TO AMEMBASSY WARSAW NIACT IMMEDIATE

C O N F I D E N T I A L STATE 113018

LIMDIS

E.O. 11652:

TAGS: EFIN

SUBJECT: PL-480 - ANNUITY NEGOTIATIONS

PASS AMBASSADOR OPENING OF BUSINESS MAY 15

1. DEPT. APPRECIATES EMBASSY'S QUICK RESPONSE TO ANNUITY PORTION OF AGREEMENT AND FULLY SHARES CONCERNS YOU EXPRESSED IN REFTEL. WE SENSE, HOWEVER, A POSSIBLE MISUNDERSTANDING BY EMBASSY OF MEANING OF LANGUAGE U.S. AND POLES HAVE AGREED TO. DEPT. FEELS, THAT DUE TO FOLLOWING REASONS, THE LANGUAGE AGREED TO IS BEST THAT CAN BE ACHIEVED UNDER PRESENT CIRCUMSTANCES.

2. COST TO USG OF MAINTAINING THE 1968 ANNUITY AGREEMENT IS AT LEAST 500,000 DOLLAR PER MONTH ABOVE THE COST OF DIRECT DOLLAR PAYMENTS TO U.S. ANNUITANTS, AND TERMINATION IS EXTREMELY ADVANTAGEOUS TO USG (SAVINGS WILL EXCEED 15 MILLION DOLS OVER THE LONG TERM). THIS USG SAVINGS IS, CONVERSELY, A LONGTERM LOSS TO THE GOP OF AN ALMOST EQUAL AMOUNT. YET, THEIR APPARENT FLEXIBILITY INDICATES A  
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STRONG NEED TO OBTAIN SHORT TERM BALANCE OF PAYMENTS RE-

LIEF. USG INTERAGENCY APPROVAL OF ROLLOVER WAS CONTINGENT UPON TERMINATION OF 1968 AGREEMENT.

3. LANGUAGE REGARDING PAYMENT IN DOLLARS READS THAT THE USG "MAY" REPEAT "MAY" DISCHARGE ITS OBLIGATIONS...BY MAILING DOLLAR CHECKS THEREFOR TO THE ANNUITANTS. SINCE SOCIAL SECURITY CHECKS NOW CONTAIN NAME, ADDRESS AND TYPE OF BENEFIT, THERE WILL BE NO CHANGE IN NEW CHECKS EXCEPT OVERSTAMP WILL BE REMOVED. THERE IS NOTHING WE SEE THAT WOULD PREVENT ANNUITANT FROM USING POWER OF

ATTORNEY TO HAVE CHECK CASHED IN U.S. BY NOTIFYING SOCIAL SECURITY OF THIS REQUEST. IN ADDITION, ONCE NEW CHECK IS ENDORSED BY ANNUITANT, IT BECOMES A NEGOTIABLE INSTRUMENT WHICH CAN BE LEGALLY CASHED BY ANYONE. ANNUITANTS IN POLAND WILL, OF COURSE, BE SUBJECT TO POLISH FOREIGN EXCHANGE LAWS AND REGULATIONS. BUT WE DO NOT SEE THAT DRAFT AGREEMENT FORCLOSES OPTIONS ANNUITANTS WOULD OTHERWISE HAVE. U.S. RESISTED CONTINUOUS EFFORTS BY POLISH SIDE TO LIMIT NEGOTIABILITY OF CHECKS TO WITHIN POLAND OR TO REQUIRE THEIR BEING CASHED AT THE MINIMUM PHASEDOWN RATE. U.S. SIDE INSISTED THAT TO OVERSTAMP CHECK WAS CONTRARY TO OUR LAW. POLISH SIDE RECOGNIZES A LOOPHOLE WILL THEREFORE EXIST, AND AS A RESULT MAINTAINS THAT LESS THAN 22 MILLION DOLS OF THE PROJECTED 28 MILLION DOLS ANNUITY FLOW THROUGH END 1977 WILL ACTUALLY GET TO POLAND. IT WOULD BE IMPOSSIBLE TO NOW REOPEN THIS ISSUE AND REQUIRE AN EXPLICIT RECOGNITION BY THE POLES OF THIS IMPLICIT RIGHT THEY HAVE

PAINFULLY AGREED TO. WHEN WE PREVIOUSLY TRIED TO DO SO THEY INSISTED THIS WAS IMPOSSIBLE DUE TO THE PRECEDENT IT WOULD SET FOR ALL ANNUITANTS, ONLY SOME PERCENTAGE OF WHICH ARE U.S.

4. REGARDING OUR COMMITMENT TO "INFORM ANNUITANTS AS TO THE LAWS AND REGULATIONS OF POLAND, RELATING TO THE NEGOTIATION OF SUCH CHECKS", THIS WILL BE ACCOMPLISHED BY AN ALREADY AGREED UPON ONETIME LETTER FROM THE USG TO OUR RECIPIENTS DESCRIBING THE ENTIRE TERMINATION  
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PACKAGE. ENTIRE TEXT OF THIS LETTER WILL BE SENT SHORTLY IN SEPTTEL. RELEVANT PORTION READS "WE HAVE BEEN ADVISED BY THE GOVERNMENT OF POLAND THAT UNDER POLISH REGULATIONS, SUCH CHECKS SHOULD (REPEAT SHOULD) BE CASHED IN POLAND." THIS WAS A COMPROMISE ARRIVED AT WITH GREAT DIFFICULTY AFTER POLISH INSISTENCE THAT U.S. AT LEAST STAMP THIS ADVICE ON CHECK SINCE WE WERE NOT LIMITING NEGOTIABILITY.

5. THE POLES WILL NOT GUARANTEE AN MFN RATE RELATIVE TO "THE MOST FAVORABLE EXCHANGE RATE." WHAT WE HAVE IS NECESSARY TO OBTAIN MINIMUM PHASEDOWN RATE GOP WILL SUPPORT. ONLY CONCERN WHICH WAS CLEARLY EXPRESSED TO BOEKER DURING CONGRESSIONAL CONSULTATIONS WAS NEED FOR ADEQUATE NOTICE AND APPROPRIATE PHASEDOWN. LEAVING ANNUITANTS IN LIMBO AFTER THREE TO SIX MONTHS WOULD NOT MEET OUR COMMITMENT FROM THESE CONSULTATIONS. ALL OUR CONGRESSIONAL CONTACTS WERE VERY FAVORABLE TO A NEGOTIATED

PHASEDOWN, AS OPPOSED TO UNQUALIFIED TERMINATION OF THE 1968 AGREEMENT.

6. JOINT LETTER TO ANNUITANTS MAKES IT CLEAR THAT USG WILL NO LONGER BE SUPPORTING THE RATE AFTER JULY 1, 1975, BUT THAT "THE U.S. AND POLAND HAVE AGREED THAT TRANSITIONAL ARRANGEMENTS ARE APPROPRIATE TO PROTECT THE WELFARE OF U.S. ANNUITANTS".

7. SOCIAL SECURITY BENEFIT INCREASE OF 8 PERCENT WILL BEGIN WITH JUNE BENEFITS PAYABLE BEGINNING OF JULY. THIS WILL OFFSET 8 PERCENT DECLINE IN EXCHANGE RATE FROM 60 TO 55. THEREFORE, THERE WILL BE NO REAL INCOME DECLINE TILL JANUARY 1, 1976.

8. ONE IMPORTANT FINAL CONSIDERATION IN DEPT. VIEW IS THE FACT THAT THESE ROLLOVER NEGOTIATIONS HAVE LASTED LONGER AND PROVED MORE INTRACTABLE THAN EITHER WE OR THE POLES EXPECTED. WHILE THIS IS IN ITSELF NO REASON TO FORCE THEM TO AN EARLY CONCLUSION, WE NEVERTHELESS ARE MINDFULL THAT WE ARE ACTING PURSUANT TO A SUMMIT DISCUSSION STEMMING FROM THE GIEREK VISIT OF 7 MONTHS AGO.  
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MOREOVER, IN CONTEXT OF OTHER VEXING BILATERAL PROBLEMS WHICH HAVE CROPE UP IN THE MEANTIME (WE HAVE IN MIND PARTICULARLY THE GOLF CART DUMPING CASE), WE ARE INCLINED TO ATTACH CONSIDERABLE POLITICAL WEIGHT TO RESOLUTION OF THIS ROLLOVER-ANNUITANT ISSUE. IN OUR JUDGEMENT EITHER ANY NEW DEMANDS ON CLOSED ISSUES OR AN OVERALL POSTPONEMENT OF THE TALKS WOULD JEOPARDIZE THE ULTIMATE ENTIRE PACKAGE. KISSINGER

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